

BEWARE OF INVESTMENT OPPORTUNITIES OFFERING RETURNS THAT ARE TOO GOOD TO BE TRUE

Most of the complaints of investment fraud investigated by the Delaware Division of Securities involve sales of unregistered securities by unregistered agents. In this current environment of low rates of return on fixed income investment vehicles, offers of high return-low risk investments are particularly tempting, especially to those on a limited income. High return-no risk investments are virtually non-existent and anyone making such claims should be carefully scrutinized. Our parents and grandparents advice that "you never get something for nothing" and "if it seems too good to be true, it probably is" usually turns out to be true. Nevertheless, hundreds of Delawareans each year invest in fraudulent investment opportunities.

Although little is certain in life, it is highly likely that if you have money, somebody will try to take it away from you. While no one factor is dispositive in determining whether an investment opportunity is legitimate, the Division of Securities has identified certain "red flags" that can be indicative of a problem investment.

Registration: The first question that an investor should ask is whether the security is registered with the state or federal regulatory agency, or is it subject to a legitimate exemption? If a security is sold in Delaware and it is not federally covered, or included within one of the statutory exemptions, it is being sold in violation of Delaware law. As stated above, the vast majority of our investment fraud investigations involve the sale of unregistered non-exempt securities. If you have a question regarding the registration of a security, the Securities Division can help you.

Excessive Rate of Return: When an investment opportunity offers a rate of return far above the currently existing rates offered for like investments from established financial institutions, the potential investor should be suspicious of it. In past investigations we have seen promised returns in excess of 10% per month (120% per year). Common sense suggests (and investigation inevitably confirms) that these investment opportunities are fraudulent. Please also be aware that it is not unusual for the perpetrator of the fraudulent investment scheme to make a few initial payments to the investor in the hope of giving credibility to the scheme with the expectation of attracting additional funds from the initial investors and also to solicit funds from new investors known to the existing investors.

"Low Risk", "Guaranteed" and "Insured" Investments: While legitimate investments can be insured by legitimate agencies including the FDIC, it is not uncommon in fraudulent investment schemes for the perpetrators to tout their investments as "low risk", "no risk", "guaranteed" or "insured." These claims are often made in conjunction with unreasonably high promised rates of return. You should be suspicious of, and avoid these investments, unless you can verify some legitimate source of insurance.

Tax Free-Offshore Investments: Some illegitimate investments investigated by the Division of Securities claim to be "tax free" and promise that the investor does not need to report of income to state and federal tax officials. In the same vein, these offerings sometimes suggest that the securities offerings are not subject to state or federal securities laws. These claims are a "red flag" that the investment opportunity may not be legitimate. You are free to contact the Division of Securities to determine whether a given security is exempt from state registration, and you may speak to state or federal tax officials about representations relating to applicable tax laws. You should also be aware that if the investment opportunity involves sending money offshore, it is often difficult or impossible to recover that money once it leaves the country.

High Pressure Tactics: Investment opportunities that require immediate action - which do not allow time to reflect on the business opportunity, or consult with family members, or trusted

professional advisers are often illegitimate. Most, if not all, legitimate investment opportunities will provide you a reasonable amount of time to investigate or evaluate the claims made. It is wise to avoid investments sold using high pressure tactics.

Cold Calls and Internet Pitches: The Division of Securities recommends that one should never invest in business opportunities when you do not know, or cannot verify, with whom you are dealing. If you receive a telephone call from a stranger, or receive a solicitation over the internet, it is often difficult or impossible for investigators to ascertain, or verify, the true identity of the person making the offer or promises. Without being able to verify a perpetrator's identity, prosecution of the individual may be impossible. The Division of Securities cautions investors against purchasing investments from unknown persons.

Requirement of Payments in Cash: A requirement that the payment for a potential investment must be made in cash is a red flag, indicating possible fraud. Obviously, cash payments do not leave a paper trail for investigators that would exist if a payment is made by check. Legitimate investment offers do not generally require a cash payment. Once again, each fraudulent investment scheme is different and may, or may not, include one or more of the above red flags. Several of the above indicators may also be evident in legitimate investments. It is always best to be cautious and thoroughly investigate the investment before investing the money. If you have a suspicion that an investment opportunity is not legitimate, or have other concerns, call the Division of Securities at (302) 577-8424 or (800) 220-5424 and ask to speak to an investigator.

The Division of Securities has investigated fraudulent investment opportunities under many names. By their obvious nature, the names of the fraudulent investment schemes change each year as law enforcement officials learn of them and make attempts to shut them down. The following list describes a number of investment schemes investigated in Delaware in which investors have ultimately lost some or all of their money:

Promissory Note Schemes

Generally, a promissory note is an agreement to pay a specified sum at a specified time, or on demand. Most also include an agreement to pay a specified amount of interest. Most promissory notes fall within the definition of a security for the purposes of the Delaware Securities Act and, unless exempt, promissory notes must be registered with the State before they can be sold. While a promissory note is a legal instrument, some persons have issued or sold them without any real intention to repay the sum specified in the agreement. Many of these fraudulent promissory note schemes offer unreasonably high rates of return. Please call the Division of Securities at (302) 577-8424 or (800) 220-5424 before purchasing promissory notes from persons pitching them as an investment opportunity.

Prime Bank Schemes

Persons perpetrating prime bank scheme frauds tell investors that there is a secret banking system of international banks and rich families who pool their money for investment and that these investment opportunities offer an extraordinarily high rate of return and are not usually available to the general investing public. The perpetrators promise high guaranteed rates of return on these "prime bank" debentures, bonds or notes. The secret banking system described does not exist. Investment in these schemes generally results in a loss of the entire investment.

Affinity Fraud and Gifting Schemes

Generally, persons perpetrating fraud need to gain the trust and confidence of the investor. This is why they were called confidence, or "con" games. Knowing that persons are wary of strangers, scam artists sometimes solicit other persons to get their friends, neighbors and families to invest

in their fraudulent investments. One such scheme investigated here and elsewhere involves "affinity fraud" where unethical persons solicit investments from person's religious congregation, or other group who affiliate because of a certain common interest. Obviously, people are more trusting of a pastor or church member who recommends a particular investment opportunity. Often the soliciting church member may not know they are pitching a fraudulent investment. The scam artists also hope that a member of the religious group or organization will be less likely to report the fraud to authorities, which might result in prosecution of a fellow member of the group. Sometimes these investments are labeled "gifting" schemes, where money invested is declared as a gift or contribution. Often investors are told that income from the investment scheme is free from taxation or that the investments are not regulated by state or federal officials. If someone approaches you with such an investment, other than a legitimate bond issued by the church, call the Delaware Division of Securities at (302) 577-8424 or (800) 220-5424.

Pyramid Schemes

Generally, a pyramid scheme is a plan in which persons invest in, or purchase, the right to sell the particular investment opportunity to others. These investors make money by enlisting new investors who pay an initial fee for the right to sell the program to investors down the chain. Generally, there is no income producing business other than bringing new investors to the program. In essence, it is like a financial chain letter. Mathematically, pyramid schemes always fail leaving some investors holding the bag. Pyramid schemes, by whatever name, are illegal and should be reported to law enforcement authorities and the Division of Securities.

Ponzi Schemes

Ponzi schemes are named after Charles Ponzi who, in the early 1920's promised Boston investors that he could provide a return of 40% in three months by trading in a device called an International Postal Reply Coupon. Investors paid Ponzi and he promptly made initial payments to the original investors. These payments came from other investors' money. The payments convinced the initial investors that the investments were legitimate and the original investors invested more money and brought their friends, neighbors and family to invest with Mr. Ponzi. In fact, Ponzi was merely paying old investors with new investors' money and in the process was skimming some of the money for himself. This form of scheme where early investors are paid with money contributed by later investors, with the issuer pocketing the difference is known as a ponzi scheme. Ponzi schemes are illegal and should be reported to the police and the Division of Securities.

Business Opportunities

Not all investments in business opportunities are legitimate. State securities regulators have discovered fraud in some coin operated telephone investment opportunities, ATM investment opportunities, sales of deregulated utility licenses and other franchises. Please investigate carefully all investments in business opportunities or franchises before you invest and, when in doubt, call the Division of Securities at (302) 577-8424 or (800) 220-5424 before investing.

Preferred Stock and Certificate of Deposits in Off-shore Entities

Recently, the Division of Securities has investigated instances of sale of fraudulent securities by established members of the business community in the form of off-shore preferred stock and certificates of deposit. Once again, the promised rates of return were far in excess of commercial rates generally available. Unfortunately, money sent off-shore is generally difficult, if not impossible to recover.

The above list of investment scams and frauds is not intended to be exhaustive. These schemes

appear in many different forms. If it sounds too good to be true, it usually is and if you have a question or complaint, please call the Division of Securities at (302) 577-8424 or (800) 220-5424.